

Message Text

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ACTION TRSE-00

INFO OCT-01 EA-10 NEA-10 ISO-00 IO-13 H-01 L-03 PA-01
SP-02 ICA-11 AID-05 EB-08 NSC-05 SS-15 STR-07
OMB-01 CEA-01 CIAE-00 COME-00 FRB-03 INR-10
NSAE-00 XMB-02 OPIC-03 LAB-04 SIL-01 /117 W
-----110588 280223Z/21

P R 272000Z JUL 78

FM AMEMBASSY SUVA

TO SECSTATE WASHDC PRIORITY 7678

INFO AMEMBASSY VIENTIANE

AMEMBASSY BANGKOK

AMEMBASSY CANBERRA

AMEMBASSY COLOMBO

AMEMBASSY DACCA

AMEMBASSY ISLAMABAD

AMEMBASSY JAKARTA

AMEMBASSY KABUL

AMEMBASSY KATHMANDU

AMEMBASSY KUALA LUMPUR

AMEMBASSY MANILA

AMEMBASSY NEW DELHI

AMEMBASSY PORT MORESBY

AMEMBASSY RANGOON

AMEMBASSY SEOUL

AMEMBASSY SINGAPORE

AMEMBASSY TAIPEI

AMEMBASSY TOKYO

AMEMBASSY WELLINGTON

AMCONSUL HONG KONG

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E.O. 11652: N/A

TAGS: EGEN, ETRD, BEXP, ADB, CE

SUBJECT: U.S. PROCUREMENT FROM ASIAN DEVELOPMENT BANK (ADB)

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REF: STATE 155300

1. SUMMARY: FACTORS LIMITING U.S. INVOLVEMENT IN ADB PROCUREMENT IN FIJI ARE, WE BELIEVE, INHERENT IN THE NATURE OF PAST FIJI POLICIES WITH RESPECT TO LOANS, AND THE NATURE OF THE ASIAN DEVELOPMENT BANK OPERATIONS HERE. TO DATE THE RELATIVELY SMALL

SCALE OF ADB PROJECTS IN FIJI, AND OTHER CONDITIONS PECULIAR TO THIS COUNTRY INCLUDING THE FACT THAT FEW US FIRMS ARE REPRESENTED LOCALLY, HAVE COMBINED TO PLACE US FIRMS AT A SERIOUS COMPETITIVE DISADVANTAGE. EARLIER DISTRIBUTION OF INFORMATION REGARDING ADB PROJECTS TO THE EMBASSY AND TO US FIRMS MIGHT BE HELPFUL.

2. THE ASIAN DEVELOPMENT BANK'S OPERATIONS TO DATE IN FIJI HAVE BEEN LIMITED, REFLECTING THE COUNTRY'S PAST POLICY OF CONFINING ITS BORROWINGS TO BILATERAL SOURCES, PRINCIPALLY AUSTRALIA, NEW ZEALAND AND GREAT BRITAIN. HOWEVER, BANK OPERATIONS MAY BE EXPECTED TO INCREASE CONSIDERABLY DURING THE PERIOD 1978-1980, NOT ONLY BECAUSE OF THE SECOND POWER PROJECT LOAN (FIJI'S THIRD ADB LOAN IN THE AMOUNT OF \$16.2 MILLION AWARDED JUNE 29, 1978), BUT VERY LIKELY ALSO FROM A SECOND LINE OF CREDIT FOR THE FIJI DEVELOPMENT BANK, AND FROM LOAN PROJECTS LIKELY TO RESULT FROM TECHNICAL ASSISTANCE GRANTS FOR SUVA PORT DEVELOPMENT AND THE FISHERIES DEVELOPMENT PROJECT.

3. EMBASSY SUVA IS UNAWARE OF ANY DIRECTO PARTICIPATION BY US FIRMS, TO DATE, IN ANY OF THE ADB LOANS AND GRANTS TO FIJI. THE FIRST OF THE THREE ADB LOANS TO FIJI WAS PROVIDED IN FEBRUARY 1972 FOR US\$4.7 MILLION FOR THE POWER SUPPLY PROJECT AND THE SECOND FOR \$2.0 MILLION IN DECEMBER 1973 FOR THE FIJI DEVELOPMENT BANK. BOTH OF THESE LOANS LIMITED OFFICIAL USE

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HAVE BEEN DISBURSED AND CLOSED. IN ADDITION, THERE HAVE BEEN TWO PROJECT PREPARATORY TECHNICAL ASSISTANCE GRANTS AWARDED (AMOUNTING TO \$92,000 FOR THE PORT AND \$57,000 FOR FISHERIES DEVELOPMENT) AND THREE ADVISORY AND OPERATIONAL TECHNICAL ASSISTANCE GRANTS FOR THE FIJI DEVELOPMENT BANK (TOTALING \$227,000).

4. AFTER DISCUSSIONS WITH GOVERNMENT PROCUREMENT OFFICERS AND WITH PRIVATE SECTOR SOURCES IT APPEARED EVIDENT TO US THAT FACTORS WHICH HAVE INHIBITED US OPPORTUNITIES FOR EXPORTS TO FIJI UNDER ADB FINANCING ARE, IN SOME IMPORTANT RESPECTS, VERY SIMILAR TO THOSE REPORTED BY OTHER POSTS. FOR EXAMPLE, A SIGNIFICANT PERCENTAGE OF ADB LENDING WAS FOR THE FIJI INDUSTRIAL DEVELOPMENT BANK. THE BANK RECEIVED A LUMP SUM FROM ADB AND DOLED IT OUT TO FIJIANS HAVING WORTH WHILE PROJECTS. BORROWERS GENERALLY HAD THEIR SUPPLIERS LINED UP BEFORE APPLYING FOR A LOAN. UNDER SUCH CIRCUMSTANCES U.S. FIRMS WOULD FIND IT IMPOSSIBLE TO OBTAIN A SLICE OF THE ACTION WITHOUT HAVING AN AGENT OR REPRESENTATIVE ON THE SPOT.

5. EQUALLY IMPORTANT, A VERY LARGE PERCENTAGE OF ADB LEN-

DING TO FIJI IS PART OF A MUCH LARGER FINANCING PACKAGE INVOLVING THE WORLD BANK, THE EUROPEAN INVESTMENT BANK AND BILATERAL LENDERS (WHO TIE THEIR AID TO THE PROCUREMENT OF EQUIPMENT). THE \$16.2 MILLION ADB LOAN RECENTLY APPROVED FOR THE MONA SAVU WAILOA HYDROELECTRIC SCHEME (MHS) IS ONLY PART OF AN \$80.0 MILLION PACKAGE OF LOANS AND GRANTS, TO DATE, FOR THAT POWER PROJECT. IN JANUARY 1978 THE IBRD/EUROPEAN INVESTMENT BANK MISSION, WITH AN ADB STAFF MEMBER PARTICIPATING AS AN OBSERVER, FOUND THE MHS PROJECT SUITABLE FOR AN ADB LOAN. FORMAL LOAN NEGOTIATIONS TOOK PLACE IN MANILA ON MAY 29-31 AND THE LOAN WAS APPROVED JUNE 29. AS

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EARLY AS JANUARY, HOWEVER, TENDER CALLS WERE SENT TO A LIST OF "PREQUALIFIED FIRMS FOLLOWING ADB PROCEDURES", ACCORDING TO A SPOKESMAN FOR THE "SPECIAL PROJECTS DIVISION" OF THE FIJI
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ELECTRIC AUTHORITY. BY THE TIME THE LOAN WAS APPROVED, OR SHORTLY THEREAFTER, THE CALL FOR TENDERS WAS CLOSED. THUS THE PREPARATION OF THE FEASIBILITY STUDY AND THE INITIAL PROJECT DEVELOPMENT OCCURRED LONG BEFORE THE PROJECT EVER REACHED ADB FOR CONSIDERATION. IN ADDITION, FOREIGN COM-PETITIORS HAD NOT ONLY DESIGNED THE SPECIFICATIONS OF THE PROJECT, BUT HAD ADVANCE GENERAL KNOWLEDGE OF TENDER RE-QUIREMENTS TO THE DISADVANTAGE OF POTENTIAL U.S. BIDDERS.

6. EXPERIENCE WITH THE FIJI SECOND POWER LOAN INDICATES THAT IN CONTRAST TO THE WORLD BANK, ADB HAS LEFT IT UP TO THE PROCURING AGENCY TO ADVERTISE FOR BIDS. THUS, UNLESS A COMPANY HAS EARLY ACCESS TO INFORMATION ON A PROJECT, EITHER FROM THE PROCURING AGENCY OR ADB HEADQUARTERS, IT IS HALDICAPPED FROM THE START. AGAIN, ACCORDING TO A SPOKESMAN FOR THE FIJI ELECTRICITY AUTHORITES' "'SPECIAL PROJECTS DIVISION" WHICH IS RESPONSIBLE FOR TENDERING FOR THE MHS PROJECT, CALLS WERE ISSUED TO "PRE-QUALIFIED FIRMS ACCORDING TO ADB PROCEDURES." THESE PREQUALIFIED LISTS OF FIRMS, IN TURN, WERE SELECTED BY SIR ALEXANDER GIBBS AND ASSOCIATES, A BRITISH FIRM WITH A BRANCH OFFICE IN AUSTRALIA WHICH NOT ONLY HAD DONE THE ORIGINAL FEASIBILITY STUDY FOR THE HYDROPOWER SCHEME (GIBBS WAS RECOMMENDED BY THE WORLD BANK FOR THIS FEASIBILITY STUDY) BUT HAS REMAINED AT THE POWER PROJECT AS CONSULTING ENGINEERS.

7. MOST OF THE ADB-FINANCED PROJECTS IN FIJI HAVE BEEN TOO SMALL TO EXCITE THE INTEREST AND ATTENTION OF AMERICAN MANUFACURING, CONSULTING AND ENGINEERING FIRMS. WE HAVE ALMOST NO REPRESENTATION HERE AND THOSE FEW US FIRMS WITH BEST REPRESENTATION LOCALLY ARE NOT IN A POSITION TO BID ON ADB PROJECTS (BANKS, CAR RENTALS, AVIATION, FISH PACKING, SOAP, ELEVATORS, HOTELS, ETC.). GIVEN A CONTINUATION OF
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THIS SITUATION, U.S. FIRMS PROBABLY CAN EXPECT VERY LITTLE GAIN IN THEIR COMPETITION FOR ADB-FINANCED PROJECTS IN FIJI IN THE IMMEDIATE FUTURE. WHEN A PROJECT COMES ALONG, WHETHER LARGE OR SMALL, GEOGRAPHIC PROXIMITY, KNOWLEDGE OF AND EX-

PERIENCE IN THE MARKET, AND PERSONS ON THE SPOT GIVE DECIDED ADVANTAGE. IN THE CASE OF FIJI, BOTH FOR HISTORIC AND GEOGRAPHIC REASONS, THOSE ADVANTAGES HAVE BEEN SOLIDLY IN THE HANDS OF AUSTRALIAN, BRITISH AND NEW ZEALAND FIRMS AND THEIR LOCALLY BASED AGENTS.

8. AS FOR REMEDIES, WE AGREE THAT EACH EMBASSY SHOULD MAKE KNOWN, LOCALLY, OUR CONCERN THAT U.S. FIRMS HAVE FAILED TO OBTAIN CONTRACTS FOR GOODS AND TECHNICAL STUDY GRANTS FINANCED BY ADB LOANS, BUT WE ALSO BELIEVE THAT THIS CONCERN SHOULD BE EXPRESSED STRONGLY BY USADB WITH A VIEW TO HAVING KADB ACT POSITIVELY TO ENSURE IMPROVED ACCESS OF ALL ADB MEMBER COUNTRIES TO ADB PROJECTS. WE WERE TOLD BY THE "SPECIAL PROJECTS DIRECTOR" FOR THE POWER PROJECT THAT GIBBS AND ASSOCIATES HAVE BEEN INSTRUCTED TO BROADEN THE LIST OF "PREQUALIFIED FIRMS" TO PROVIDE MORE OPPORTUNITIES FOR COUNTRIES CONTRIBUTING LARGE SHARES TO ADB AND IBRD TO OBTAIN A MORE STABLE SLICE OF THE PIE. HOWEVER, WE HAVE BEEN UNABLE TO CONFIRM THIS OBSERVATION OR TO DETERMINE HOW IT WOULD BE DONE.

9. EVEN IF U.S. FIRMS WERE ALERTED MUCH EARLIER THE PROBLEM STILL REMAINS HOW TO INTEREST U.S. FIRMS IN THIS MARKET. WE AGREE THAT WE NEED AN EXPORT POLICY WITH STRONG MEASURES TO DEAL WITH THIS PROBLEM. THE SYSTEM OF INFORMATION SHOULD SOMEHOW BE BROADENED TO INCLUDE ENGINEERING AND CONSULTING FIRMS AS WELL AS MANUFACTURING ESTABLISHMENTS SINCE THE MOST CRUCIAL STAGE COMES, AS OTHERS HAVE ALREADY POINTED OUT, AT THE TIME EQUIPMENT SPECIFICATIONS ARE DRAWN. ONCE TENDER CALLS HAVE BEEN ISSUED, THERE IS INSUFFICIENT TIME LEFT FOR THE PROCESS OF PREPARATION AND SALES.

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10. PROBABLY ALSO GREATER ATTENTION SHOULD BE PAID TO GOVERNMENT POLICIES WHICH U.S. MANUFACTURERS AND CONSULTING FIRMS SEE AS INHIBITING THEIR ENTERING THE EXPORT FIELD: TAX POLICIES, EXPORT FINANCING POLICIES AND THE LIKE.
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